A NEW IDENTITY WITH A RICH HERITAGE

Magasins
Hart
Stores Inc.

Annual Report

For the year ended February 3, 2001

New Beginnings

Hart Stores Inc. operates 55 mid-sized junior department stores, located in smaller communities across Quebec and Atlantic Canada. Operating under the Hart, Bargain Giant and Géant des Aubaines banners, these stores offer an extensive selection of national and exclusive apparel brands as well as family footwear, home furnishings, housewares, giftware, toys, linens, bed and bath accessories, small furniture, seasonal items and other categories.

During the Annual and Special Meeting held June 15, 2000, the shareholders of the Company approved a plan of arrangement ("the arrangement") to distribute its interest in its wholly-owned subsidiary, Multimicro Inc. to the Company's common shareholders on a pro rata basis, effective July 12, 2000. The arrangement resulted in the transfer of the Computer and Communication Divisions to the shareholders of the Company within a separate publicly traded company operating under Hartco Corporation.

Pursant to the arrangement, the company changed its name from Hartco Enterprises Inc. to Hart Stores Inc., in order to better reflect the nature of its activities. For comparative purposes, the financial highlights, message to shareholders and management discussion and analysis in this report, refer to continuing operations. Results of the Computer and Communication Divisions prior to the adoption of the plan of arrangement are presented as discontinued operations in the financial statements of Hart Stores Inc.

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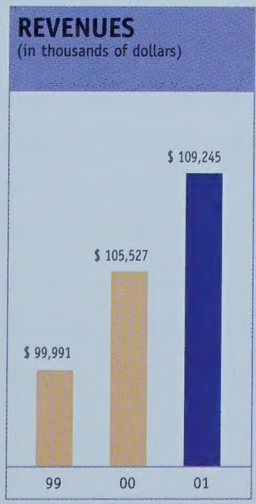
FINANCIAL HIGHLIGHTS

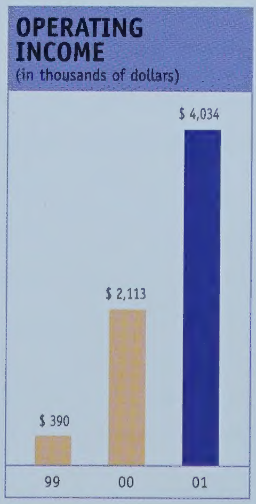
FROM CONTINUING OPERATIONS

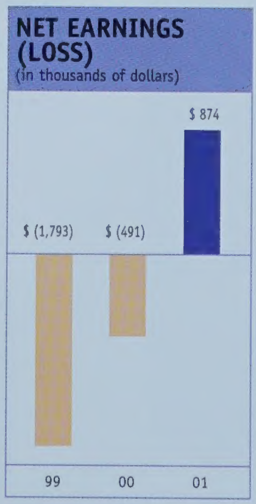
(In thousands of dollars, except per share amounts)

	2001 (53 weeks)	2000	1999	1998	1997
OPERATIONS					
Revenues	**$ 109,245**	$ 105,527	$ 99,991	$ 103,552	$ 99,439
Cash flow from operations	**2,355**	1,189	80	1,542	2,433
Operating income	**4,034**	2,113	390	1,807	2,445
Net earnings (loss)	**874**	(491)	(1,793)	(549)	237
FINANCIAL STRUCTURE					
Total assets	**$ 38,122**	$ 39,738(1)	$ 43,046	$ 49,735	$ 47,808
Working capital	**16,022**	19,628(1)	14,508	14,643	13,113
Net funded debt	**9,309**	11,424(1)	15,048	18,204	18,700
Shareholders' equity	**21,358**	20,524(1)	20,803	21,181	20,864
PER SHARE AMOUNTS					
Earnings (loss) per share:					
Basic	**$ 0.07**	$ (0.04)	$ (0.14)	$ (0.04)	$ 0.02
Fully diluted	**0.07**	(0.04)	(0.14)	(0.04)	0.02
Book value per share	**1.65**	1.58	1.61	1.65	1.65
Average number of shares	**12,976,864**	12,968,536	12,892,864	12,712,811	12,639,988

(1) The financial year 2000 has been adjusted, for comparative purposes, to exclude net assets from discontinued operations and attributable to common controlled entity.







MESSAGE TO SHAREHOLDERS

A company in its 41st year of operation can hardly claim to be new, and yet this is a time of new beginnings for Hart Stores Inc. Several important events during the millennium year lead us to this assertion.

First came the plan of arrangement. Under this plan, Hartco Enterprises Inc. became Hart Stores Inc. and spun off the Computer and Communication divisions, which now form a separate publicly traded company called Hartco Corporation. Under this arrangement, the management of Hart Stores Inc. now maintains an exclusive focus on the department store business.

A few weeks later came the 40th anniversary of the opening of our first store, located in the town of Rosemère, just north of Montreal. We marked this anniversary in all our stores with a special celebration, amply promoted, and centered on a broad selection of products with impressive price reductions. Customer reaction was nothing less than spectacular. A considerable number of new customers were attracted and existing customers renewed their loyalty.

Following two quarters that bore the negative imprint of cool, damp spring and summer weather in eastern Canada, this celebration delivered a huge boost in revenues. Third quarter revenues were up an impressive 14%.

This positive momentum carried right through until Christmas, resulting in a 6% increase in same-store sales for the entire financial year.

Our approach is simple. All stores and all departments must contribute to the bottom line. In the last financial year, we closed our store at Saint-Jean-sur-Richelieu, southeast of Montreal, because it could not meet performance targets. In the previous financial year, five other underperforming stores were closed, mostly situated in communities that fall outside our chosen profile.

Michael Hart
President

We renewed our commitment to a healthy bottom line. With revenues up 3.5% in the financial year ended February 3, 2001, reaching a record level of $109.2 million, we moved into a profit position, with net earnings of $874,000, or $0.07 per share. This compares to a loss of $0.04 per share in the preceding financial year.

Plans for expansion

This brings us to a point where we can once again shift into expansion mode. We are now ripe for new store locations as opportunities arise. We plan to proceed at a modest pace, opening two to three stores per year.

Our target markets remain small towns in secondary and tertiary markets of Quebec and Atlantic Canada, as well as some bedroom communities on the edges of metropolitan centres. We locate mostly in dominant local malls, with store sizes ranging from 20,000 to 30,000 square feet. The formula is a proven one for Hart Stores.

This format is well suited for the communities we serve, which are generally not big enough to support the larger-format stores operated by some of our major competitors. In the few locations where we do go head-to-head with them, our fashion and home furnishing selections include items that are different and often more appealing. We have our own identity, and this has enabled us to compete effectively.

We have also been updating our information systems to provide up-to-the-minute sales data. This will enable us to operate with lower inventories, reducing interest costs and merchandise markdowns.

As we enter our fifth decade of operation, we are taking a more aggressive approach to business. This is reflected in our marketing and advertising. It is also evident in our product mix, our pricing strategy and our inventory management that is producing faster stock turns.

Weathering an economic slowdown

We are targeting a 5% increase in same-store sales in the current financial year, despite the clouds that have been looming over the North American economy. Much of what we sell fits the category of basic necessities. We can even benefit in the area of discretionary purchases as some shoppers seek better value and move to us from more expensive specialty retail establishments.

Our more aggressive approach coupled with the excellent co-operation we receive from our suppliers will enable us to lower certain price points, making us even more attractive to consumers. In addition, we have a flexible cost structure that enables us to keep expenses under control.

All this and other measures we have taken will help us combat any economic slowdown that may come our way. We have weathered ups and downs over 40 years and we have done quite well in recession years.

This is our first annual report since Hart Stores began operating as a pure play department store.

Inventory control is absolutely fundamental to success in the retail trade. We are continually adjusting our merchandise selection to put more emphasis on items that carry higher returns on our investment.

The split from the new Hartco Corporation has made our company focused and more determined.

The positive shift in the bottom line that we witnessed this year is a result of a strong team focused on producing results. I am confident that we will deliver further improvements in the years ahead. The past year has felt like a rebirth, with the added benefit of four decades of experience.

On behalf of the Board of Directors, I would like to take this opportunity to thank our shareholders for their support, our vendor partners for their continued co-operation and our associates for their dedication. As a strong team we have proven that we are well positioned to move this company forward for another 40 years of success.

On behalf of the Board of Directors,

Michael Hart

Michael Hart
President

May 1, 2001


Ensemble à vaisselle en grès
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A TRADITION OF SERVICE

From humble beginnings, a friendly giant has grown. The Hart retail organization took root in 1960 with a single store in Rosemère, Quebec, then a rural community, north of Montreal. Recognizing market opportunities, founder Harry Hart gradually built a modest chain of junior department stores catering to everyday consumer needs.

By 1995 the chain consisted of 32 stores operating under the Hart, Géant des Aubaines and Bargain Giant banners, located in smaller communities in Quebec and Atlantic Canada. In the summer of 1995 Hart acquired another 32 locations, doubling in size overnight.

In February 2000, plans were developed to celebrate the Company's 40th anniversary in suitable style. A challenge was issued to the buying team to build on partnerships with suppliers to offer tremendous values on merchandise at "prices never seen!" The customer response was exceptional! With same-store sales more than 30% higher than in the comparable flyer period a year earlier.

We are proud of our rich heritage.


HART
Hart

Strategic Initiatives

The marketing strategy relies on value-oriented pricing with strong promotional programs, excellent customer service and strategic locations in high-traffic malls serving small towns and select suburban areas. The Company has developed strong customer loyalty in today's competitive retail environment. More than four decades of experience have enabled Hart Stores and its 900 employees to develop a genuine feel for the needs and lifestyles of todays consumers.

Merchandise Promotions

Promotional activities focus on exposing the Hart image and merchandise mix to community markets. An aggressive two-pronged promotional approach has resulted in successfully creating and maintaining critical traffic patterns.

First, aggressive flyer publications play a very significant role in achieving sales and volume targets, delivered to the doorstep of 1.3 million households throughout Québec plus target markets in New Brunswick, Nova Scotia and Newfoundland.

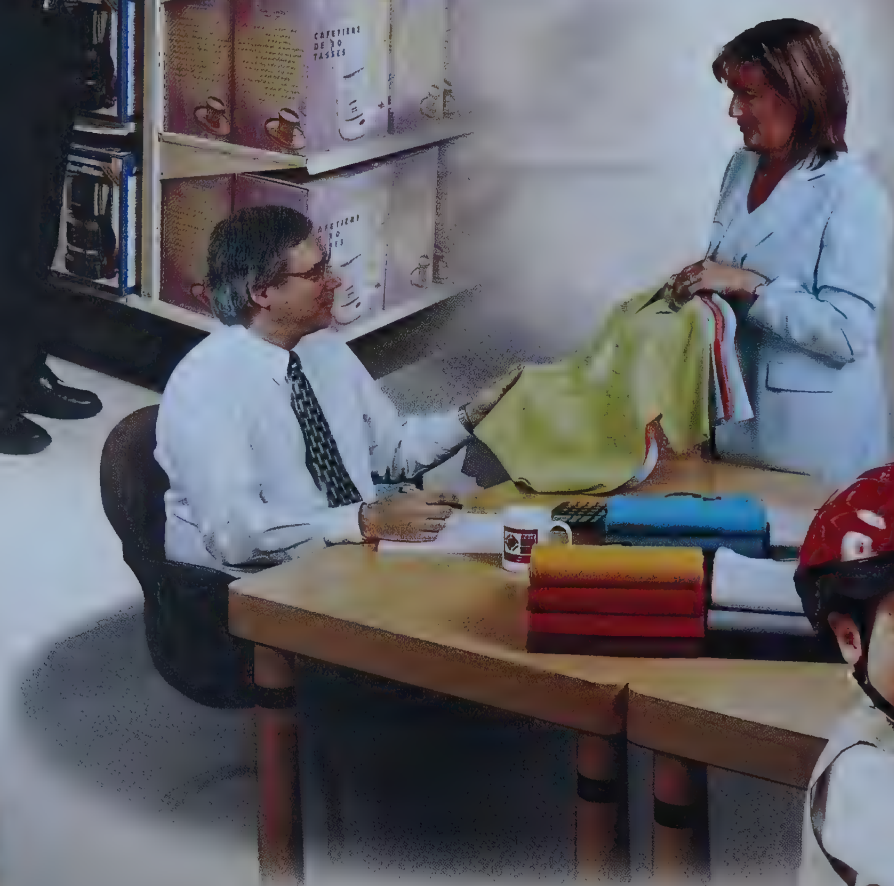
Second, careful attention is paid to local activities such as mall promotions, local campaigns, festivals and seasonal events with well-timed newspaper and radio advertising on a regular basis.

Community Support: serving local needs

Participating actively in the community has always been a cornerstone in the relationship between Hart Stores and the towns where it operates. The Company has never forgotten its humble beginnings in small-town Canada. Store managers are well aware of their responsibilities in responding to local needs. From hockey tournaments to fund-raising events to civic emergencies, Hart is there! Here are just three examples: Cree Nation Invitational Hockey and Broomball Tournament, Atlantic Balloon Festival and ice storm relief in Saint-Jean-sur-Richelieu.

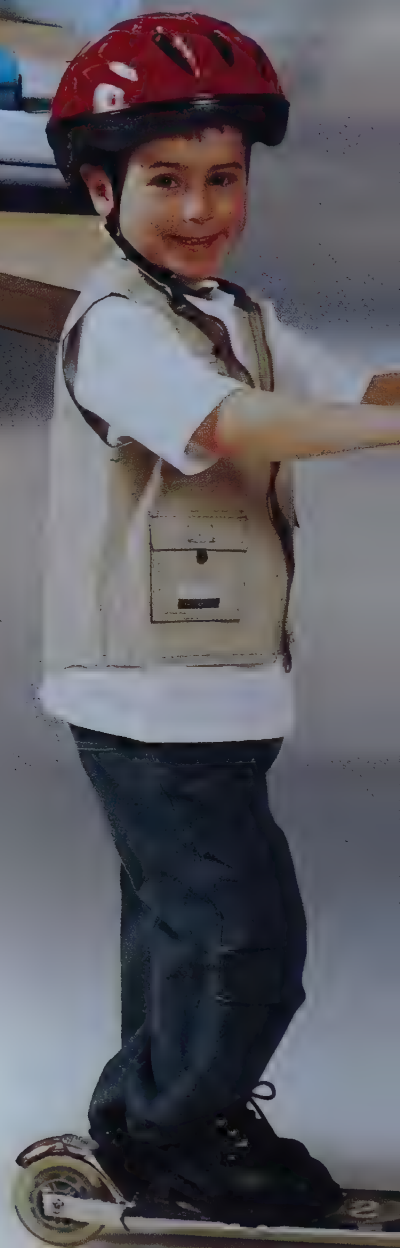
www.hartstores.com

Michel Lussier
Director Store
Operations



Howard Michaels
Vice President Merchandising
Marla Orenstein
General Merchandising Manager

Lina Ciliberto
Buyer



More... Strategic Initiatives

The Hart Team

At Hart, our strength is our people. From store associates to President, we all share a similar singular focus on service and value to our customers. Our centralized approch allows for rapid decision making and efficient merchandise replenishment in response to an ever changing Canadian retail scene.

Our buying group has established themselves in the marketplace for their focus on fashion, trends, and most importantly, the needs of the Hart customer.

Hart Stores believes in associate education and training, promoting advancement from within, actively embracing new technological concepts and strongly believing and relying upon the input from all associates through various initiative programs. Programs such "Make it Real, Make it Happen" rewarding personal initiatives, an "Associate of the Month" in each store and an open door policy that allows any associate direct access to the President's office, thus creating an unbeatable team synergy.

Vendor Partnerships: part of the team

Our vision of growth and success relies on support from hundreds of key merchandise suppliers that have been doing business with us from the earliest days. The Company takes enormous pride in its relationships with its vendors, who play a vital role in our merchandising and promotional strategies. Hart's successful advertising promotions are a success because of the active cooperation from suppliers who make large quantities of merchandise available at prices that generate extra consumer appeal.

Over the years, Hart has nurtured a vendor-retailer relationship based on trust and cooperation. Hart believes that the vendor must play an integral part in "selling" the product at store level. To this end, Hart holds an annual forum to facilitate the free flow of ideas and strategies. The Hart Vendor Fair and Store Managers' Conference is a four-day event at which all aspects of operations are discussed.

Where We Are

Hart

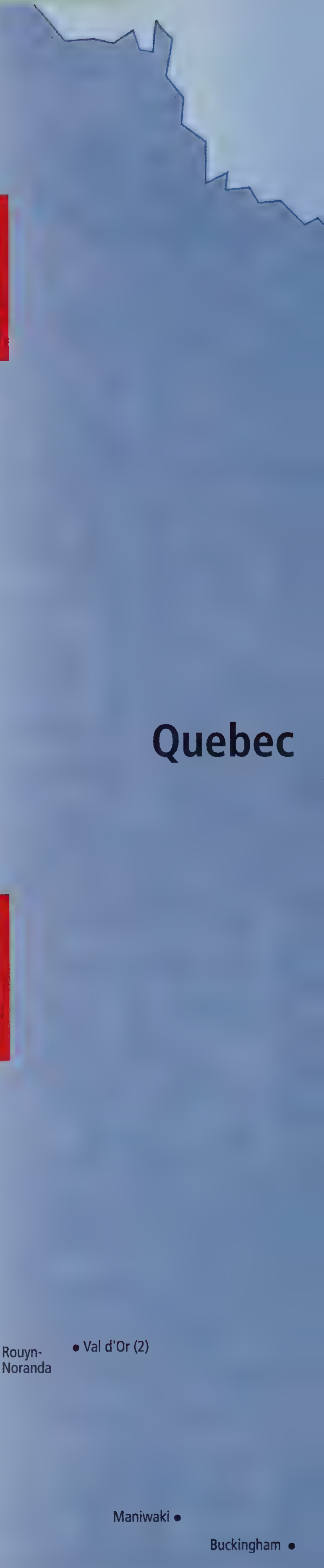
Amqui
Baie-Saint-Paul
Buckingham
Cabano
Chandler
Châteauguay
Delson
Gaspé
Granby
Labrador City
Lac-Mégantic
Maniwaki
Matane
Mont-Joli
Montmagny
Pincourt
Repentigny
Rimouski
Rouyn-Noranda
Sainte-Anne-des-Monts
Sainte-Marie-de-Beauce
Sainte-Marthe-sur-le-Lac
Saint-Georges-de-Beauce
Saint-Hyacinthe
Saint-Jérôme
Sherbrooke
Terrebonne
Thetford Mines
Trois-Pistoles
Valleyfield
Val-d'Or
Ville de Québec

Géant des Aubaines

Beauport
Charlesbourg
Forestville
Neufchatel
Nicolet
Plessisville
Port-Cartier
Saint-Romuald
Sept-Îles
Val-d'Or
Victoriaville

Bargain Giant

Bay Roberts
Carbonear
Grand Falls/Windsor
Lewisporte
Miramichi/Douglastown
Port-aux-Basques
Port Hawkesbury
Saint-Basile
Shelburne
Stephenville
Sussex
Yarmouth



Montreal area
Saint-Jérôme
Repentigny
Terrebonne
Laval
Ste-Marthe-sur-le-Lac
Montreal
Pincourt
Châteauguay
Delson
Valleyfield
Quebec area
Beauport
Charlesbourg
Neufchatel
Ville de Québec
Quebec
Saint-Romuald
Labrador
Labrador City
Newfoundland
Lewisporte
Grand Falls/ Windsor
Carbonear
Bay Roberts
Stephenville
Port-aux-Basques
Sept-Îles
Port-Cartier
Gaspé
Ste-Anne-des-Monts
Chandler
Forestville
Matane
Mont-Joli
Amqui
Rimouski
Trois-Pistoles
Cabano
Saint-Basile
Miramichi/ Douglastown
Prince Edward Island
Port Hawkesbury
Baie Saint-Paul
New Brunswick
Montmagny
Sussex
Nova Scotia
Quebec
Ste-Marie-de-Beauce
St-Georges-de-Beauce
Thetford Mines
Nicolet
Plessisville
Victoriaville
Lac Mégantic
Yarmouth
Shelburne
Sherbrooke
Granby

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operations Activity Summary

Hart Stores Inc. operates a network of 55 mid-sized, junior department stores under the Hart and Bargain Giant banners, located in secondary and tertiary markets across Quebec and Atlantic Canada. The stores offer value products and a wide selection of merchandise, with store formats well suited to the markets in which they operate.

The Company changed its name from Hartco Enterprises Inc. to Hart Stores Inc. to better reflect the nature of its operations following the adoption of the plan of arrangement effective July 12, 2000. The plan consisted of splitting Hartco Enterprises Inc.'s main sector of activities, which consisted of Department Store operations and Computer and Communication operations into two distinct public companies. The Computer and Communication operations operate under the name Hartco Corporation.

Figures contained in this report do not include contributions from the Computer and Communication divisions, except as noted. Results of the Computer and Communication Divisions prior to the adoption of the plan of arrangement are presented as discontinued operations in the financial statements of Hart Stores Inc.

Revenues

For the 53 weeks ended February 3, 2001, consolidated revenues reached a record level of $109,245,000, an increase of 3.5% compared to revenues of $105,527,000 for the 52-week period in the previous year.

After adjustments for the additional week and after the closing of six stores during the last two fiscal years, same-store sales showed a 6% increase, above the average for Canadian department stores during this period.

A review of the year shows weaker-than-expected sales in the first half but an above-average performance in the second half. Poor spring and summer weather in eastern Canada dampened sales in several departments during the first two quarters. However, revenues in the third quarter registered a very strong increase of 14% due to the success of a special promotional event linked to the 40th anniversary of the Company's founding. The momentum built by this event continued into the all-important fourth quarter, with revenues for the quarter 2.1% higher than the previous year's already strong performance, which had witnessed an 11% increase.

Robert Farah
Vice President, Secretary
and Chief Financial Officer

Quarterly Information
(in thousands of dollars, except amounts per share)

	REVENUES		NET EARNINGS (LOSS) from Continuing Operations		NET EARNINGS (LOSS) from Discontinued Operations(1)		NET EARNINGS (LOSS)	
	2001	2000	2001	2000	2001	2000	2001	2000
Quarter 1	$ 19,207	$ 19,440	$ (1,209)	$ (1,394)	$ (357)	$ 2,902	$ (1,566)	$ 1,508
Quarter 2	24,949	25,318	118	(113)	(1,704)	710	(1,586)	597
Quarter 3	28,292	24,736	465	354	0	161	465	515
Quarter 4	36,797	36,033	1,500	662	0	(8,056)	1,500	(7,394)
Year	**$ 109,245**	**$ 105,527**	**$ 874**	**$ (491)**	**$ (2,061)**	**$ (4,283)**	**$ (1,187)**	**$ (4,774)**

(1) Results of Computer and Communication Divisions prior to the adoption of the plan of arrangement are presented as discontinued operations in the financial statements of Hart Stores Inc. (the Corporation).

The store in Saint-Jean-sur-Richelieu, southeast of Montreal, was closed during the year because it was not able to meet performance targets. This was one of the last stores slated for closure. Five other under-performing stores had been closed in the previous fiscal year.

Operating Income

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended February 3, 2001, stood at $4,034,000, up 90.9% from the $2,113,000 for the previous year.

This positive shift of nearly $2 million resulted from improved changes in merchandise selection, successful sales promotions, the closure of under-performing stores, and other effective cost control measures.

Interest

The net interest charge for the 53-week period ended February 3, 2001 stood at $1,065,000. This includes the offset of inter-company interest charged to Hartco Corporation before the split of activities.

Depreciation and Amortization

Expenses related to depreciation and amortization in the year ended February 3, 2001 stood at $1.4 million. This is $123,000 lower than in the previous year. Capital expenditures of $131,000 this year and $516,000 in the previous year, related primarily to Point of Sale upgrades and new information systems.

Net Earnings

Income before taxes from continuing operations for the year ended February 3, 2001 (53-week period), reached $1,549,000, compared to a loss of $398,000 the previous year.

Net earnings based on continuing operations moved into positive territory, reaching $874,000, or $0.07 per share. The previous year, the Company reported a net loss of $491,000, or $0.04 per share. (Fully diluted per share amounts are the same in each case.)

Total Assets

Total assets stood at $38.1 million at February 3, 2001 compared with $39.7 million on a comparable basis a year earlier. ($120.3 million reported last year, includes $60.1 million of net assets from discontinued operations transferred to Hartco Corporation and $20.5 million of common controlled entity receivables related to Hartco Corporation, which was repaid pursuant to the plan of arrangement).

Inventory levels were down $1.7 million from last year as management focused on improving inventory turnover and maintaining lower inventory levels.

Risks and Uncertainties

The financial risks to which the Company is exposed to are primarily Canadian currency fluctuations against the US dollar and interest rate fluctuations. Transactions in foreign currency are primarily made up of inventory purchases in foreign countries. This volume is marginal in relation to the annual volume of business. Interest payable under the terms of the new revolving credit facility is prime plus 0.5%, as such, the Company will benefit when interest rates decline.

There also exists external risk associated with the general economic climate. The Company cannot control these risks, but it has taken certain actions to mitigate them.

Capital Structure
(in thousands of dollars)

	2001		2000(1)	
Net Assets	**$ 30,667**	**100.0%**	**$ 31,948**	**100.0%**
Financed By:				
Debt	9,309	30.4%	11,424	35.8%
Equity	21,358	69.6%	20,524	64.2%
	30,667	**100.0%**	**31,948**	**100.0%**
Debt: Equity ratio	**.44:1**		**.56:1**	

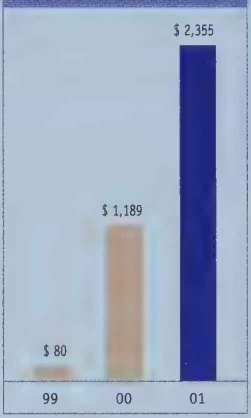
(1) In the above table, fiscal 2000 has been adjusted for comparative purposes, as follows: *net assets* has been adjusted to exclude net assets related to discontinued operations and loan receivable from common controlled entity (Hartco Corporation); *debt* has been adjusted to exclude the portion of debt that was taken out to finance the loan receivable from common controlled entity (Hartco Corporation); *equity* has been adjusted to exclude discontinued operations.

Cash Position

Cash flows, from operating activities totaled $2,355,000, compared with $1,189,000 in 2000, mainly due to an increase in profitability.

During the fiscal year, the Company negotiated a new credit facility of $20 million with Congress Financial Corporation. At February 3, 2001, $9.3 million was drawn on this revolving credit facility. At any given time during the financial year, the amount outstanding fluctuates based on the seasonality of the business requirements. The Company does not foresee any circumstances, which would require reaching the maximum provided under this facility.

CASH FLOW FROM OPERATIONS
(in thousands of dollars)



Outlook

Following a year of record earnings and revenues from continuing operations, Hart Stores Inc. will maintain its focus on achieving profitable revenue growth. The Company's cost structure remains under continuous review with a focus on improving the bottom line. Management is confident that earnings will increase in the current financial year.

One of the key elements in the cost structure is inventory level management. Merchandise selection, a continuing process, has been adjusted to place greater emphasis on items that produce faster turnovers and higher margins. Management also anticipates repeating last years successful Back-to-School sales promotion, with well selected items priced at levels that are intended to generate increased sales volumes. This is expected to raise store-wide and network-wide performance in a manner that will create a further positive impact on earnings.

The Company is currently implementing new software for merchandise system and financial systems while retaining some elements of the existing systems. This change will make information available more quickly and in greater detail, providing management with better control of inventories and decision making. The more accurate monitoring of inventory levels is expected to result in lower interest payments and fewer markdowns.

The new credit facility Hart Stores Inc. has signed with Congress Financial Corporation provides revolving credit of up to $20 million and offers an element of financial stability. In addition, the Company carries no long-term debt, giving the Company a strong financial footing and the flexibility to move forward in implementing its focused merchandise driven strategy.

Robert Farah
Vice President, Secretary and Chief Financial Officer

FINANCIAL STATEMENTS

Responsibility for the Financial Statements

The management of Hart Stores Inc. is responsible for the integrity of the accompanying financial statements and all other information in the annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which recognize the necessity of relying on best estimates and informed judgements. All financial information in the annual report is consistent with that contained in the financial statements.

Hart Stores Inc. maintains effective systems of internal accounting and administrative controls consistent with reasonable cost. Existing systems are designated to provide reasonable assurance and reliability and that the Company assets are adequately accounted for and safeguarded. The Audit Committee, which is comprised of two outside directors, meets with representatives of the Company's auditors, and with members of management to satisfy itself that policy is being followed.

The financial statements have been reviewed by the Audit Committee and together with the other required information in this annual report, have been approved by the Board of Directors. The Company's auditors, Deloitte & Touche LLP, chartered accountants, have examined these financial statements and their report follows.

Michael Hart

Michael Hart
President

Robert Farah
Vice President, Secretary and Chief Financial Officer
May 1, 2001

Auditors' report

To the Shareholders of Hart Stores Inc.
(Formerly Hartco Enterprises Inc.)

We have audited the balance sheets of Hart Stores Inc. as at February 3, 2001 and January 29, 2000 and the statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at February 3, 2001 and January 29, 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Montreal, Quebec
March 23, 2001

For the years ended February 3, 2001 and January 29, 2000

Statements of earnings

(in thousands of dollars, except amounts per share)

	2001 (53 weeks)	2000 (52 weeks)
Sales	**$ 109,245**	$ 105,527
Cost of sales and expenses excluding the undernoted items	**105,211**	103,414
Earnings before the undernoted items	**4,034**	2,113
Interest on long-term debt	**556**	228
Other interest	**509**	740
Depreciation and amortization	**1,420**	1,543
	2,485	2,511
Earnings (loss) before income taxes from continuing operations	**1,549**	(398)
Income taxes (Note 9)	**675**	93
Net earnings (loss) from continuing operations	**874**	(491)
Net loss from discontinued operations (Note 2)	**(2,061)**	(4,283)
Net loss	**$ (1,187)**	$ (4,774)
Basic and fully diluted earnings (loss) per share (Note7)		
Continuing operations	**.07**	(.04)
Discontinued operations	**(.16)**	(.33)
Net loss	**(.09)**	(.37)

Statements of retained earnings

(in thousands of dollars)

	2001	2000
Balance - beginning of year	**$ 56,355**	$ 62,297
Distribution to shareholders (Note 2)	**(58,103)**	–
Plan of arrangement costs (Note 2)	**(40)**	–
Net loss from discontinued operations (Note 2)	**(2,061)**	(4,283)
Balance after distribution to shareholders	**(3,849)**	58,014
Net earnings (loss) from continuing operations	**874**	(491)
Dividends paid	**–**	(1,168)
Balance - end of year	**$ (2,975)**	$ 56,355

Balance sheets

(in thousands of dollars)

	2001 (53 weeks)	2000 (52 weeks)
Assets		
Current assets		
Cash	$ 781	$ 161
Prepaid expenses	1,328	392
Accounts receivable	31	42
Inventory	30,646	32,327
Income taxes recoverable	–	468
Loan receivable - common controlled entity	–	4,300
	32,786	37,690
Fixed assets (Note 4)	5,059	6,348
Other assets	277	-
	38,122	44,038
Net assets related to discontinued operations (Note 2)	–	60,164
Loan receivable - common controlled entity	–	16,086
	$ 38,122	$ 120,288
Liabilities		
Current liabilities		
Indebtedness under revolving credit facility (Note 5)	$ 9,270	$ -
Bank loan	-	494
Accounts payable and accrued liabilities	6,969	7,790
Income taxes payable	486	-
Current portion of long-term debt (Note 6)	39	5,478
	16,764	13,762
Long-term debt (Note 6)	–	25,838
	16,764	39,600
Shareholders' equity		
Capital stock (Note 7)	24,333	24,333
Retained earnings related to discontinued operations (Note 2)	–	60,164
Deficit	(2,975)	(3,809)
(Deficit) retained earnings	(2,975)	56,355
	21,358	80,688
	$ 38,122	$ 120,288

On behalf of the Board

Harry Hart

Harry Hart, Director

Brian Smith

Brian Smith, Director

for the years ended February 3, 2001 and January 29, 2000

Statements of cash flows

(in thousands of dollars)

Cash flows provided by (used in):		
Operating activities		
Net earnings (loss) from continuing operations	**$ 874**	$ (491)
Items not affecting cash and cash equivalents:		
Depreciation and amortization	**1,420**	1,543
Amortization of deferred financial costs	**61**	–
Write-down of fixed assets included in store closures	**–**	84
Future income taxes	**–**	53
	2,355	1,189
Change in working capital items (Note 8)	**889**	1,781
	3,244	2,970
Financing activities		
Decrease (increase) in indebtedness	**8,776**	(11,776)
Proceeds of long-term debt	**–**	30,100
Repayment of long-term debt	**(31,277)**	(1,562)
Plan of arrangement costs	**(40)**	–
Employee share options exercised	**–**	210
Deferred financial costs	**(338)**	–
Payments of dividends	**–**	(1,168)
	(22,879)	15,804
Investing activities		
Decrease (increase) in loan receivable - common controlled entity	**20,386**	(18,859)
Net additions to fixed assets	**(131)**	(516)
	20,255	(19,375)
Net change in cash and cash equivalents attributable to continuing operations	**620**	(601)
Net change in cash and cash equivalents attributable to discontinued operations (1)	**1,614**	2,378
	2,234	1,777
Cash and cash equivalents from continuing operations - beginning of year	**161**	(405)
Cash and cash equivalents from discontinued operations - beginning of year (Note 2)	**(1,614)**	(1,211)
Cash and cash equivalents - beginning of year	**(1,453)**	(1,616)
Cash and cash equivalents - end of year	**$ 781**	$ 161
Supplemental cash flow disclosure:		
Interest paid	**1,094**	968
Income taxes paid	**(33)**	301

(1) Includes net loss from dicontinued operations of $2,061 ($4,283 for the year 2000)

Notes to financial statements

(in thousands of dollars, for tabular figures only)

1. Accounting policies

Inventory
Inventory is valued at the lower of cost and net realizable value less normal profit margin. Cost is determined using the retail method.

Depreciation and amortization
Fixed assets are depreciated as follows:

Furniture and equipment	20%	diminishing balance
Computer equipment and software	20%	straight-line
Rolling stock	30%	diminishing balance

Leasehold improvements are amortized on the straight-line basis over the lesser of their estimated useful lives and the terms of the leases plus first renewal options.

Other assets
Other assets relate to deferred financial costs. These costs are amortized using the straight-line method over three years.

Future income taxes
Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using current tax rates as an estimate of these, which will be in effect when the differences are expected to reverse.

Employee stock option plan
The Company has a stock-based compensation plan where options to purchase common shares are issued to directors, officers and employees. Any consideration received on exercise of stock options is credited to share capital.

Store opening expenses
Store opening expenses are written off as incurred.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative figures
Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

2. Distribution of Computer and Communication Divisions

During the Annual and Special Meeting held June 15, 2000, the shareholders of the Company approved a plan of arrangement ("the arrangement") to distribute its interest in its wholly-owned subsidiary, Multimicro Inc. to the Company's common shareholders on a pro rata basis, effective July 12, 2000. The arrangement resulted in the transfer of the Computer and Communication Divisions to the shareholders of the Company within a separate publicly traded company operating under Hartco Corporation.

Pursuant to the arrangement, the Company changed its name from Hartco Enterprises Inc. to Hart Stores Inc., in order to better reflect the nature of its activities.

The transaction was recorded as a distribution to shareholders at the equity carrying value of $58,103,000 which represented the Company's interest in Multimicro Inc. as at July 12, 2000. The net loss from discontinued operations amounted to $2,061,00 for the period ended July 12, 2000 and $4,283,000 for the year ended January 29, 2000.

The debt structure was modified whereby intercompany loans were repaid by Hartco Corporation, and the Company used the proceeds, as well as proceeds from a new credit facility, to repay its outstanding long-term debt. The long-term debt holders re-issued the outstanding debt to Hartco Corporation. The costs related to the arrangement and new financing agreements have been allocated between the Company and Hartco Corporation. The Company's share of such costs amounted to $396,000, of which $338,000 were charged to deferred financial costs, and $40,000 were charged to retained earnings, net of applicable income taxes.

Comparative figures have been restated to reflect the discontinued operations separately on the statements of earnings, retained earnings, cash flows and the balance sheets.

The net assets related to the discontinued operations as at January 29, 2000 are summarized as follows:

Current assets	$116,545
Non-current assets	33,870
Bank overdraft	(1,614)
Current liabilities	(72,404)
Long-term debt	(16,233)
Net assets transferred as at January 29, 2000	$ 60,164

3. *Financial period*

The Company's year-end is the Saturday closest to January 31st.

4. *Fixed assets*

	2001			2000		
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Cost	Accumulated Depreciation and Amortization	Net Book Value
Leasehold improvements	**$ 4,669**	**$ 3,757**	**$ 912**	$ 4,669	$ 3,509	$ 1,160
Furniture and equipment	**14,764**	**11,094**	**3,670**	14,919	10,258	4,661
Computer equipment and software	**1,119**	**647**	**472**	1,128	608	520
Rolling stock	**44**	**39**	**5**	44	37	7
	$ 20,596	**$ 15,537**	**$ 5,059**	$ 20,760	$ 14,412	$ 6,348

The above includes assets acquired under capital leases having an original cost of $7,056,000 ($7,056,000 in 2000) and a net book value of $2,187,000 ($2,734,000 in 2000).

5. *Indebtedness under revolving credit facility*

The Company has a $20 million credit facility with Congress Financial Corporation. Under the terms of the agreement, the interest payable is prime plus 0.5%. The facility is secured by a general security agreement against all assets of the Company. As at February 3, 2001, the Company is in compliance with all covenants.

6. *Long-term debt*

	2001	2000
Term facility repaid pursuant to plan of arrangement (Note 2)	$ –	$ 30,100
Obligations under capital leases, expiring in 2002, subject to imputed interest at 8.45%. These obligations are secured by the assets acquired thereunder.	**39**	1,216
	39	31,316
Less current portion	**39**	5,478
	$ –	$ 25,838

7. *Capital stock*

a) Authorized

An unlimited number of:

- Class A preferred shares issuable in series
- Class B preferred shares issuable in series
- Common shares

	2001	2000
Issued		
12,976,864 Common shares (12,976,864 in 2000)	**$ 24,333**	$ 24,333

b) Employee share option plan

Options	2001 Shares	2001 Weighted Average Exercise Price	2000 Shares	2000 Weighted Average Exercise Price
Outstanding at beginning of year	**837,930**	**$ 9.29**	842,880	$ 10.09
Granted prior to July 12, 2000	**250,000**	**3.24**	–	–
Exercised prior to July 12, 2000	**–**	**–**	–	–
Cancelled prior to July 12, 2000	**(334,910)**	**4.60**	–	–
Cancelled due to transfer to Hartco Corporation stock option plan as at July 12, 2000(i)	**(694,340)**	**9.57**	–	–
	58,680	**1.47**	842,880	10.09
Plan of arrangement as at July 12, 2000(i)	**174,045**	**–**	–	–
Outstanding - July 12, 2000	**232,725**	**1.47**	–	–
Granted	**515,000**	**0.31**	175,000	7.52
Exercised	**–**	**–**	(32,900)	6.37
Cancelled	**(90,028)**	**1.61**	(147,050)	12.41
Outstanding at end of year	**657,697**	**0.54**	837,930	9.29
Exercisable at end of year	**231,864**	**$ 0.91**	476,420	$ 9.06

(i) On July 12, 2000, the effective date of the plan of arrangement, 694,340 options held by employees of the Computer and Communication Divisions were cancelled as a result of the transfer to the Hartco Corporation stock option plan. The remaining 58,680 options were adjusted using an exchange ratio of 3.966 resulting in the issuance of an additional 174,045 options. The number of options outstanding as at July 12, 2000 was 232,725. The exercise prices were also adjusted using an exchange ratio of 3.966, except for unexercised options held by employees who are not insiders of the Company, that were adjusted to a new option price of $0.30 per share. The exchange ratio was based on the respective market values of Hartco Enterprises Inc. and Hart Stores Inc. for the 10-day periods preceding and following the effective date of the plan of arrangement.

The following tables summarize information about the stock options at February 3, 2001 and January 29, 2000, respectively:

2001

Range of Exercise Prices	Options outstanding: Number Outstanding at February 3	Options outstanding: Weighted Remaining Contractual Life	Options outstanding: Weighted Average Exercise Price	Options exercisable: Number Exercisable at February 3	Options exercisable: Weighted Average Exercise Price
$0.30 to $0.31	**554,581**	**9.0 years**	**$ 0.31**	**135,294**	**$ 0.31**
$1.50 to $2.50	**103,116**	**0.8**	**1.81**	**96,570**	**1.76**
	657,697	**7.7 years**	**$ 0.54**	**231,864**	**$ 0.91**

2000

Range of Exercise Prices	Options outstanding: Number Outstanding at January 29	Options outstanding: Weighted Remaining Contractual Life	Options outstanding: Weighted Average Exercise Price	Options exercisable: Number Exercisable at January 29	Options exercisable: Weighted Average Exercise Price
$5.95 to $7.10	334,730	1.8 years	$ 6.19	228,050	$ 6.14
$7.75 to $9.90	236,650	3.2	8.27	101,750	8.60
$13.50 to $16.00	266,550	3.0	14.08	146,620	13.92
	837,930	2.6 years	$ 9.29	476,420	$ 9.06

An additional 874,928 common shares are reserved for the granting of options at prices not less than the market value of the shares at that time.

c) Earnings (loss) per share

Earnings (loss) per share results were calculated based on the weighted average number of shares outstanding for the year of 12,976,864 (12,968,536 for the year 2000). Fully diluted earnings per share are calculated assuming that the share options outstanding at year-end had been exercised at the beginning of the year or at the date of issuance, if later.

8. Change in working capital items

	2001 (53 weeks)	2000 (52 weeks)
Prepaid expenses	$ (936)	$ (166)
Accounts receivable	11	(20)
Inventory	1,681	(383)
Income taxes recoverable	468	1,400
Accounts payable and accrued liabilities	(821)	780
Accounts payable - common controlled entity	–	170
Income taxes payable	486	–
	$ 889	$ 1,781

9. Income taxes

Income taxes included in the statements of earnings differ from the statutory tax rate as follows:

	2001 (53 weeks)	2000 (52 weeks)
Earnings (loss) before income taxes	$ 1,549	$ (398)
Statutory income tax rate	39.27%	38.94%
Income taxes based on statutory income tax rate	608	(155)
Large corporation tax	–	112
Non-deductible expenses and other adjustments	67	136
Income taxes	$ 675	$ 93

10. Contractual obligations

As at February 3, 2001, the minimum rentals payable under long-term operating leases, exclusive of certain operating costs for which the Company is responsible, are as follows:

2002	2003	2004	2005	2006	Thereafter	Total
$ 6,064	$ 5,810	$ 5,315	$ 4,817	$ 3,143	$ 8,488	$ 33,637

Of these leases, an amount of $237,000 pertains to warehouse space which has been sublet to a common controlled entity. Certain of the lease agreements provide for additional annual rentals based on sales.

11. Related party transactions

Transactions with related parties occurred within the normal course of business at fair value and have been measured at their exchange amount.

	2001 (53 weeks)	2000 (52 weeks)
Rent revenue - common controlled entity	$ 108	$ 108
Purchases - common controlled entity	63	465
Rent expense - common controlled entity	250	248
Interest - common controlled entity	(518)	272

12. Financial instruments

Risk management
The Company is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates, and the degree of volatility of these rates. The Company uses financial instruments to reduce those risks and does not hold or issue financial instruments for trading purposes.

Currency risk
The Company uses foreign exchange options to manage currency risk. These options grant the Company, for a premium payment, the right to purchase U.S. dollars under agreed terms. Premiums related to these options are deferred until the options are exercised or expired. At February 3, 2001, there were no open options outstanding.

Fair values
Fair values of assets and liabilities approximate amounts at which these items could be exchanged in a transaction between knowledgeable and willing parties. Fair value is based on available public market information or, when such information is not available, is estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate level of risk for the instrument. The estimated fair values may differ in amount from that which could be realized in an immediate settlement of the instruments.

At February 3, 2001, the carrying value of all financial instruments approximates fair value.

Corporate Information

Directors

Harry Hart
President and CEO
Hartco Corporation
Hampstead, Quebec

Michael Hart
President
Hart Stores Inc.
Cote Saint-Luc, Quebec

Stephen Hart
Lawyer
Hart, Saint-Pierre
Westmount, Quebec

Brian Smith
Leasing Executive
Snowcap Investments
Toronto, Ontario

Officers & Management

Michael Hart,
President

Robert Farah,
Vice President, Secretary &
Chief Financial Officer

Michel Lussier,
Director Store Operations

Howard Michaels,
Vice President Merchandising

Marla Orenstein,
General Merchandise Manager

Salvatore Pugliese,
Director Information Technology

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Listing of Stock

Toronto Stock Exchange

Symbol

HIS

Registrar and Transfer Agent

Computershare Trust Company of Canada

Auditors

Deloitte and Touche LLP

Principal Financial Institution

Congress Financial Corporation (Canada)
Royal Bank of Canada

Investor Relations

Maison Brison Inc.
(514) 731-0000

Annual Meeting

The Annual General Meeting of Shareholders will be held on June 20, 2001 at 10:30 a.m. at Ruby Foo's Hotel 7655 Decarie Blvd., Montreal, Quebec

Further Information

Shareholders requiring further information concerning Hart Stores Inc. should refer to the corporations web site at the following address: www.hartstores.com or send on e-mail to hartstoresinfo@hartco.com

www.hartstores.com